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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016

BAC3674 – ADVANCED MANAGEMENT ACCOUNTING

(All Sections/Groups)

10th MARCH 2016

2.30 PM – 5.30 PM

(3 HOURS)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **5 pages** (exclusive of cover page) only.
2. **Answer ALL FIVE (5) questions.** All questions carry equal marks and the distribution of the marks for each question is given.
3. Please provide all your answers in the Answer Booklet provided.

QUESTION 1

Mutiara College is a small life sciences school located in Damansara. It is evaluating its botany programme because the programme's tuition revenues and costs recently produced an RM80,000 loss, which is typical of performance in the past few years. Tuition revenues earned totalled RM320,000; operating expenses were faculty salaries, RM215,000; and other facility costs, RM175,000. If the programme is dropped, the following are expected:

Some students will change majors, but overall college enrolment will decline as other students transfer to other universities. Total loss tuition revenue is estimated at RM195,000.

Untenured faculty members with combined salaries of RM170,000 can be dismissed. The tenured faculty will transfer to the biology department. In addition, 75% of the programme's supplies cost can be saved.

Other facility costs include RM98,000 of general college overhead costs that are assigned to the programme and RM77,000 of salaries earned by office and support personnel. One of these employees (annual salary, RM22,000) will be transferred to the music's school; other employees can be laid off.

Equipment will be removed and transferred to the fine arts school at a cost of RM1,100. The vacated space can be converted to a weight and physical conditioning facility for student athletes. This new facility likely will help attract better athletes and make the college's athletic programmes more competitive.

The director of development reports that Ahmad Sani, an alumna and supporter of the botany programme, is now sole owner of the highly successful Ahmad Scientific Bhd. Ahmad has designated the college as a major beneficiary of his estate.

Required:

- a) Should Mutiara College drop the botany programme? Show calculations. (9 marks)
- b) What other factors should be considered if the decision is made to drop the programme? (6 marks)
- c) What options might be open to Mutiara College if it continues the programme and the college's president mandate that "programme losses must be eliminated within three years"? (5 marks)

[TOTAL: 20 MARKS]

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QUESTION 2

Mobil Enterprise manufactures electronic mobility scooters. The company is split into two divisions: the scooter division (Division S) and the motor division (Division M). Division M supplies electronic motors to both Division S and to external customers. The two divisions run as autonomously as possible, subject to the group's current policy that Division M must make internal sales first before selling outside the group; and that Division S must always buy its motors from Division M. However, this company policy, together with the transfer price which Division M charges Division S, is currently under review.

Details of the two divisions are given below.

Division S

Division S's budget for the coming year shows that 35,000 electronic motors will be needed. An external supplier could supply these to Division S for RM800 each.

Division M

Division M has the capacity to produce a total of 60,000 electronic motors per year. Details of Division M's budget, which has just been prepared for the forthcoming year, are as follows:

Budgeted sales volume (units)	60,000
Selling price per unit for external sales of motors	RM850
Variable costs per unit for external sales of motors	RM770

The variable cost per unit for motors sold to Division S is RM30 per unit lower due to cost savings on distribution and packaging.

Maximum external demand for the motors is 30,000 units per year.

Required:

- a) Assuming that the group's current policy could be changed, advise, using suitable calculations, the number of motors which Division M should supply to Division S in order to maximise group profits. Recommend the transfer price or prices at which these internal sales should take place.

Note: All relevant workings must be shown.

- b) Why is goal congruence important to an organization's success? (10 marks)
- c) Explain the goals of a transfer-pricing system in a decentralized organization. (4 marks)

(6 marks)

[TOTAL: 20 MARKS]

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QUESTION 3

- a) An integral part of the overall organizational decision support system is the cost control system, which is the set of formal and informal tools and methods designed to manage organizational costs. The cost control system provides information for planning and control from the point activities are being planned until after they are performed.

Required:

Discuss the various elements of cost consciousness in the cost control process.

(8 marks)

- b) Bedah and Benjy are preparing their household financial budget for June 2016. They have started with their May budget and are adjusting it to reflect the difference between May and June in planned activities. The following list describes the budgetary changes from May to June that are contemplated by this family.

Required:

Indicate each of the following actions represent on which cost consciousness attitude.

- i. Increase the grocery budget by RM1,650.
- ii. Change food budget to reflect serving chicken rice rather than lamb chop and fries each weekend.
- iii. Budget an extra RM700 for utilities.
- iv. Postpone purchasing of needed work clothes until the December sales.

(4 marks)

- c) Doodoo Manufacturing began implementing a just-in-time inventory system several months ago. The production and purchasing managers, however, have not seen any dramatic improvements in throughput. The managers have decided that the problems are related to company suppliers. The company's three suppliers seem to send the wrong materials at the wrong times.

Required:

Prepare a discussion of the problems that might exist in this situation.

(8 marks)

[TOTAL: 20 MARKS]

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QUESTION 4

Langkawi Sdn. Bhd. operates its two divisions as investment centres. Information about these divisions are as follows:

	Division 1 (RM)	Division 2 (RM)
Sales	4,200,000	1,200,000
Total variable costs	2,520,000	300,000
Total fixed costs	500,000	700,000
Average assets invested	6,100,000	1,100,000

Required:

- What is the residual income of each division if the "charge" on invested assets is 13 percent? Which division has better performance?
(6 marks)
- If the only change expected for next year is a sales increase of 20 percent, what will be the residual income of each division? Which division will be performing better financially?
(6 marks)
- Why were the percentage changes in residual income determined in (b) so different for Division 1 and 2?
(5 marks)
- Why is performance measurement important to the success of businesses?
(3 marks)

[TOTAL: 20 MARKS]

QUESTION 5

The Products Development Division of Dapur Ceria has just completed its work on a new kitchen utensil. After consumer research was conducted, the marketing group has estimated the following quantities of the product which can be sold at the following prices over its life cycle:

Year	Quantity	Selling price (RM)	Year	Quantity	Selling price (RM)
1	100,000	2.50	5	600,000	2.00
2	250,000	2.40	6	450,000	2.00
3	350,000	2.30	7	200,000	1.90
4	500,000	2.10	8	130,000	1.90

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Initial engineering estimates of direct material and direct labour costs are RM0.85 and RM0.20, respectively, per unit. Variable overhead per unit is expected to be RM0.25, and fixed overhead is expected to be RM100,000 per year. Dapur Ceria's management strives to earn a 20 percent gross margin on products of this type.

Required:

- a) Estimate the target cost for the new kitchen utensil. (5 marks)
- b) Compare the estimated production cost to the target cost. Discuss this comparison and how management might use the comparison to manage costs. (6 marks)
- c) Based on your answer in (b), should Dapur Ceria begin production of the new kitchen utensil? Explain. (1 mark)
- d) How would the adoption of Total Quality Management (TQM) in Dapur Ceria benefit the management? Discuss. (8 marks)

[TOTAL: 20 MARKS]

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